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SMEDA's Cohesive Strategy for Service Delivery to SMEs

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Abstract:

The report combines the key findings and recommendations of 4 USAID supported projects, managed by the Firms team in the last year. Each project has had a focus on supporting The Small and Medium Enterprise Development Authority (SMEDA) in Pakistan. These projects include:

A review of SME Policy in Pakistan.

A review of the business orientated Regulatory Framework in Pakistan

An Organizational Assessment and Strategy for Service Delivery to SMEs, for SMEDA

Assistance to SMEDA in developing a 5 Year Business Plan – presented in PowerPoint format.

Findings and recommendations emerging from these projects have been integrated into a single Cohesive Strategy for SMEDA. This Strategy has also been developed alongside the SMEDA management team through provision of guidance in supporting them develop their own 5 Year Business Plan. In essence, the Cohesive Strategy and 5 Year Business Plan have been ‘knitted’ together forming a ‘roadmap’ with which SMEDA are comfortable, and which will serve as a practical vehicle for driving SMEDA forward.

The Cohesive Strategy presents SMEDA’s plans regarding their future role in shaping and contributing to SME Policy, and streamlining the regulatory framework in which the private sector operates in Pakistan. The Cohesive Strategy also concentrates on future plans with regard to a revised Operational Structure for SMEDA, a strengthened range of relevant and practical SME Business Development support services, and detail on how these services will be delivered.

Both SMEDA and the Firms team recognize the significant challenges facing SMEDA in ‘managing change’. SMEDA recognize their limitations and for this reason remain keen to maintain a dialogue with USAID – particularly with regard to technical support in implementing the challenging recommendations for change emerging from each of the projects highlighted above. For this reason, we conclude this report with a brief section entitled ‘Implementation – ‘Making it Happen & Support Required’.

Acronyms

CEO	Chief Executive Officer
BD	Business Development
BDR	Business Development Review
BDS	Business Development Services
BDSP	Business Development Service Providers
BSDS	Business and Sector Development Strategy
DGM	Deputy General Manager
FGD	Focus Group Discussion
GM	General Manager
GOP	Government of Pakistan
HO	Head Office
ILO	International Labor Organization
IRC	Information Resource Center
IT	Information Technology
KPI	Key Performance Indicator
LUMS	Lahore University of Management Sciences
M&E	Monitoring and Evaluation
PSDP	Public Sector Development Program
RBC	Regional Business Coordinator
SME	Small and Medium Enterprise
SMEDA	Small and Medium Enterprise Development Authority
SOW	Scope of Work
TA	Technical Assistance
TOR	Terms of Reference
TQM	Total Quality Management
USAID	United States Agency for International Development

Table of Contents

1. INTRODUCTION.....	1
1.1 PROJECT OBJECTIVES	1
1.2 WHERE THIS FITS - SCOPE OF TECHNICAL ASSISTANCE BY USAID	2
1.3 'A COHESIVE STRATEGY' (SMEDA AND USAID FIRMS TEAM)	2
2. SMEDA CONSULTANCY PROJECTS – CONSOLIDATED OUTPUTS AND RECOMMENDATIONS.....	4
2.1 'SMEDA'S ORGANIZATIONAL ASSESSMENT AND STRATEGY FOR SERVICE DELIVERY TO SMES'	4
2.2 'SME POLICY AND REGULATORY FRAMEWORK REVIEW'	5
2.3 'SME POLICY: SUPPORT FOR LEGAL FRAMEWORK'	5
2.4 'ASSISTANCE WITH SMEDA'S 5 YEAR BUSINESS PLAN'	6
3. A COHESIVE STRATEGY	8
3.1 COHESIVE STRATEGIC REVIEW	8
3.1.1 EVALUATION OF SMEDA – ORGANIZATION & OPERATIONS	8
3.1.2 EXTERNAL ASSESSMENT – SME BUSINESS DEVELOPMENT NEEDS AND POLICY, ADVOCACY, REGULATORY ISSUES	12
4. COHESIVE STRATEGY	14
4.1 VISION AND OBJECTIVES	14
4.2 SMEDA OPERATIONAL STRUCTURE	14
5. PERFORMANCE MANAGEMENT AND KPIS.....	20
6. PILOT PROGRAM	22
7. IMPLEMENTATION – 'MAKING IT HAPPEN & SUPPORT REQUIRED'.....	23

1. Introduction

1.1 Project Objectives

The objective of this project is to prepare a succinct document consolidating recent USAID supported projects for SMEDA, into a Cohesive Strategy harnessing all outputs and recommendations from each project into a clear 'way forward' for SMEDA.

Within this context, the recent USAID supported projects which will be covered within this Cohesive Strategy include:

- SMEDA – 'An Organizational Development Strategy for Service Delivery to SMEs' (Appendix 1)
- The SME Policy Review (Appendix 2)
- The Review of the Regulatory Framework (Appendix 3)
- Assistance in developing SMEDA's 5 Year Business Plan – PowerPoint Presentation (Appendix 4)

Working closely with the USAID Firms Project staff, the appointed consultant will review all reports and documents relevant to the projects above, highlight key findings and recommendations, and synchronize these into a consolidated Cohesive Strategy which embraces:

- All recommendations made regarding a new 'menu' of SME Business Development (BD) services, the channels through which these services should be delivered to SMEs, the organizational structure both in the SMEDA Head Office and in the 4 'operational' provinces through which these services will be delivered, and recommendations regarding performance management models and specific Key Performance Indicators (KPIs) – against which performance must be measured.
- Recommendations regarding the need for a greater reliance on external Business Development Service Providers (BDSPs) as a principal mechanism for supporting 'high growth potential' SMEs – how SMEDA should explore relative strengths in BDSP supply capacity, how they recruit, how they allocate and manage BDSPs project involvement with SMEs
- Plans to restimulate awareness, understanding, and usage of SMEDA services in the SME community – Marketing & PR
- Recommendations regarding SMEDAs future role, as the lead SME support agency in Pakistan, in contributing toward future SME policy, at a national, regional, and industry/sector level
- Recommendations regarding SMEDA's future role in 'streamlining' current business regulatory and administrative practices, thereby directly improving the SME operating environment in Pakistan, and finally;
- Recommendations made regarding a new SMEDA Organization & Management Structure necessary to underpin development and implementation of this Cohesive Strategy, and the 5 Year Business Plan which SMEDA has developed over the last few months, based on these 3 projects and their own development and planning efforts.

1.2 Where this fits - Scope of Technical Assistance by USAID

SMEDA is an autonomous body, working under the Ministry of Industries, within the Government of Pakistan. SMEDA promotes and facilitates SMEs through provision of business development services and advocacy for enabling the business environment.

The overall framework of technical assistance extended by USAID to SMEDA focused on building capacity to address the issues and problems of SMEs in a more demand responsive manner. This framework was broadly divided into two main components. First, a detailed review intended to identify and address limitations in SMEDA's mandate, governance structure and role within the context of national SME Policy 2007 (SME Bill). Second, to review SMEDA's strategic thrust as the 'lead' SME business development services (BDS) enabler in Pakistan, in particular focusing on SMEDA's BDS service menu and service delivery through their provincial outreach mechanism.

The primary objectives of these interventions were aimed at improving SMEDA's technical proficiency as an organization catering to SME needs through increased efficiency and relevance of service delivery, and their role in policy/regulatory advocacy to provide a more efficient business environment in which SMEs operate.

Finally, the input and recommendations in each separate project together with this condensed Cohesive Strategy and SMEDA's own 5 Year Business Plan, was always intended to serve as a vehicle which SMEDA management could use in approaching The Government, Donor Agencies and other stakeholders to outline their development plans, highlighting their needs for ongoing advisory and funding support. Within the parameters of this report, this is important in that from an early point in all three projects it was accepted that given the current funding pressures which SMEDA face, combined with the extensive need for change – particularly in provision of support to SMEs – highlighted in the reports, external and additional funding was always going to be required.

1.3 'A Cohesive Strategy' (SMEDA and USAID Firms Team)

The most recent SMEDA focused project supported by USAID and managed by the Firms team over April/May 2013. The original objective of this was, in fact, to develop a Cohesive Strategy – combining all previous projects – for presentation and discussion with SMEDA. This project had been proposed and agreed by SMEDA at the Advisory Committee meeting held on 20 March 2013.

This Advisory Committee meeting had been originally planned for mid January 2013. Over the period January 2013 to March 2013, with the arrival of a new CEO at SMEDA, the management team initiated a review and strategy evaluation exercise in order to formulate their own Business Plan. This opened an opportunity of a more inclusive, joint approach for working with SMEDA to develop a Business Plan which incorporated a thoroughly evaluated strategy, and would provide an end product of more practical value to SMEDA. It was SMEDA who fully endorsed this and specifically asked for the appointed consultant to work closely with the management team to provide guidance on developing a 5 Year Business Plan. The 'end product', the SMEDA 5 Year Business Plan presented as a PowerPoint document (Appendix 4) has evolved through each of the USAID supported projects, and Firms input in providing close assistance and guidance in developing the Business Plan.

Throughout our involvement with SMEDA we have consistently emphasized the point that SMEDA should take ownership of, and be comfortable with all aspects of our recommended strategy and the jointly developed Business Plan. With this, inevitably there are elements which we would not necessarily fully agree with, however, ultimately it is SMEDA's plan and they must

bear the responsibility of 'making it happen'. Overall, we are happy with the jointly developed Business Plan at Appendix 4. It does reflect the key outputs and recommendations of our work. More importantly, SMEDA has finalized this plan, and agreed to the key elements of it. They recognize their limitations, and are very keen to maintain a dialogue with USAID particularly with regard to the need for external technical advice, assistance and support in driving the plan forward.

2. SMEDA Consultancy Projects – Consolidated Outputs and Recommendations

In advance of the section on Cohesive Strategy, the purpose of this section is to provide a brief 'snapshot' of the key findings, outputs, and recommendations emerging from each USAID supported project.

2.1 'SMEDA's Organizational Assessment and Strategy for Service Delivery to SMEs'

- A new Organization & Management structure was recommended which merges the current Outreach and BSDS (Business and Sector Development Strategy) Divisions into one Business Development Services (BDS) Division. This will ensure all SME facing activities will be managed more cohesively than is the case now. In this specific project the remit and focus was on delivery of SME BD services. As such, the proposed structure only focused on the BSDS and Outreach Divisions – not on Central Support and Policy Planning Divisions.
- The Cohesive Strategy and the SMEDA Business Plan, now includes a revised Operational Structure which covers all operating divisions and, additionally, reflects future SME Policy, Advocacy and Regulatory roles for SMEDA management.
- A Network of 12 SMEDA Satellite Offices more widely equipped and resourced with experienced, 'yet to be appointed' SME Advisors, will replace the current 22 RBC 'single person' network.
- With a direct match to SME needs and constraints cited in the SME needs assessment study, SMEDA plan to introduce a range of new BD Service Families. These BD Service Families have already been defined.
- The SMEDA Management team recognize their future reliance on working with an expanded pool of carefully selected and screened Business Development Service Providers (BDSPs), to provide tailored services matching the distinct needs of each SME. SMEDA need support and guidance in assessing the strengths/weaknesses of current BDSP supply capacity, how to recruit, and assess, and how to manage BDSPs on SME specific projects.
- Current SME awareness/understanding of SMEDA is low, in particular 'who they are' and 'what they do'. The future strategy requires, and outlines a need for a Marketing & Promotion Plan to address this.
- The Strategy recommends the launch of a BDS Pilot Program targeting selected SMEs spread across the 4 SMEDA provincial catchment areas. More on this later.
- Implementation of the 'Organizational Assessment and Strategy for Service Delivery to SMEs' will be a real challenge for SMEDA. A comprehensive Capacity Building and Training Program is proposed.

- A 3 Phase Implementation Plan covering the period 2013 -2020 is included as a vehicle to 'steer' The Strategy.
- A Performance Management Model including detailed KPIs and objectives is included in the final report on this project.

2.2 'SME Policy and Regulatory Framework Review'

- The project report made clear that the SME Policy 2007 requires improvement in clarity through better design. Ongoing assessment of progress and implementation of policy and more efficient M&E would be enabled through stronger clarity and communication of policy. SMEDA as the lead SME support agency in Pakistan have an important role in contributing to SME policy.
- Clearer objectives, KPIs and baselines are required to steer and measure progress.
- It is imperative that SMEDA ensure that SME Policy actually addresses and is aligned with SME needs and constraints – as they emerged in the 'Organizational Assessment and Strategy for Service Delivery to SMEs' project.
- SMEDA have a role to play in ensuring that 'SME Policy 2007' recommendations are implemented. In general, these fall within 2 categories:
 - Business Environment - Establish a task force for regulatory reform, to audit/assess benefit and requirement of existing regulations on business practices, streamline regulations, removing those of no benefit
 - Access to Finance – Encourage, lobby, 'take a lead' in strengthening access to finance initiatives for SMEs
- Ensure mainstreaming of 'gender' issues, define institutional responsibilities, and establish KPIs and target timelines.
- Actively educate, promote, encourage entrepreneurship and innovation. (Awards, training, promotion, links to academia, industry associations etc)
- Actively encourage women entrepreneurship
- Develop a 'rescue culture' for troubled firms
- Move toward a unanimously accepted definition of SMEs, used by all appropriate Government Agencies and Stakeholders.
- 'Voices of SMEs' – Not represented significantly at institution and private sector level either nationally or regionally.
- SME Institutional Coordination is weak, leading to inefficiency, confusion amongst SMEs, duplication of activities. Imperative to have a central, coordinated and joined up approach integrating all SME relevant agencies. Again, given SMEDA's status as the 'lead' SME support agency, they should lead on this.

2.3 'SME Policy: Support for Legal Framework'

Legal & Regulatory

- SECP and Registrar of Firms need to be more effective
- Incentivize, encourage enforce company registration

- Consolidate labor and employee related legislation through one agency, and remove other agencies – which is causing confusion, duplication, and delay
- Introduce a more efficient case management and prioritization system in court more sympathetic to the impact of delays on a business.
- Move toward a more consistent enforcement of business start up and business exit requirements.

SMEDA Ordinance

- Agree composition of The Board
- Introduce more private sector representation on The Board
- Define role and responsibilities of the CEO and appointment criteria/protocols
- Increase autonomy, and budget responsibility for SMEDA
- Ensure significantly expanded role as a 'catalyst' or 'broker' between SMEs and Government Agencies/Stakeholders in National SME Policy formulation and implementation.
- Introduce a SME Grant/Subsidy Coordination role to SMEDA

2.4 'Assistance with SMEDA's 5 Year Business Plan'

Managed through the Firms team, USAID were asked by SMEDA to provide technical guidance in developing their 5 Year Business Plan. SMEDA recognized the need for support in ensuring that recommendations made in the 'Organizational Assessment and Strategy for Service Delivery to SMEs' project needed to be fully integrated into their plan. In particular, new BD Service Families, a new network of 12 Satellite Offices to replace the current 22 RBCs, clarity on support delivery channels for SMEs, and for use and management of a stronger pool of relevant BDSPs.

As part of this assistance, SMEDA also asked for guidance in defining their future role and management responsibility for inputting to SME Policy (national, regional and by sector), and advocacy regarding national efforts to streamline business regulatory and legal frameworks.

On the basis of this effort, we are confident that there is now a strong 'fit' between the recommendations we made in the individual projects, and the strategic direction, priorities and actions SMEDA have presented in their Business Plan. As covered earlier, our stance throughout has been that this is SMEDA's plan. For this reason, although we are confident that our recommendations regarding SMEDAs development have been accepted, there are a number of areas where we don't fully agree with SMEDAs position:

- Currently, the SMEDA Plan has 13 'priority' sectors for focus. Given their limited resources, a focus on 13 sectors is impractical.
- Despite various discussions on this subject, SMEDA continue to target 'dairy and livestock' as a target sector. Whilst we would completely concur that 'beyond farm gate' businesses operating in these sectors should be supported by SMEDA, the issue lies more with SMEDAs inclination toward helping individual farmers in these sectors.
- The Business Plan does include a series of Objectives/Target, and 'Indicators' (their version of KPIs). The Objectives are very 'macro' level. For example, increase in jobs nationally, increase in GDP, new enterprises created. The actual targets set in these criteria are, frankly, somewhat challenging, if not wholly impractical. However, the real

issue is an absence of any goals and targets at a 'micro' SME level, SMEDA Satellite Office and SME Advisor level.

As a reflection of the extent to which SMEDA has moved away from its original mandate of direct BD support to SMEs over recent years, more toward a sector, large funded project approach – it is perhaps not surprising that SMEDA are struggling with understanding, and committing to a wholesale change in the BD support services they offer to SMEs. Whilst we are confident that they are committed to these changes and accept the necessity of the changes, it is a daunting challenge for them where close 'handholding' support would be much appreciated.

3. A Cohesive Strategy

3.1 Cohesive Strategic Review

3.1.1 Evaluation of SMEDA – Organization & Operations

The purpose of this section is to outline the key findings of the SMEDA organizational assessment and services delivered to SMEs at present. These findings are drawn from group meetings attended by SMEDA Head Office and Regional/Outreach managers, and 'one to one' meetings with the Chief Executive Officer (CEO) and senior managers.

In particular, this evaluation assessed SMEDA's capability to deliver business development services to SMEs, particularly in the context of our assessment of SME BD needs (next section). It also comments on SMEDAs current capacity and efforts regarding national SME policy, advocacy in this direction and contribution toward greater regulatory efficiency. The section focuses on:

- SMEDA's mandate and focus
- Capacity and resource constraints
- Management structure
- Existing service menu
- Marketing and promotion

SMEDA's Mandate & Focus

- Since its inception SMEDA has suffered from a lack of clarity regarding its key objectives, responsibilities and remit. Not surprisingly, an impact of this has been a diminishing level of awareness and understanding of who SMEDA is, and what services they provide.
- Within SMEDA it is accepted that the organization had lost focus, and had strayed away from its original, defining objectives and remit.
- Over recent years, one major change in SMEDA's strategic direction has been the progressive shift in focus towards large PSDP (Public Sector Development Program) Projects to the detriment of concentration on providing business development support to SMEs.
- SMEDA management collectively agrees the need to re-balance the focus in favor of SME BD service delivery.

Coverage of Micro Enterprises

There is lack of clarity over whether SMEDA should support micro businesses or not. We are clear in our recommendations to SMEDA.

- 96% of the estimated 3.2m SMEs in Pakistan are micro businesses (<10 employees). It is impractical to consider providing effective support nationally to a base of 3.2m companies.
- Micro businesses have a different set of support requirements to more established SMEs, requiring different delivery channels.
- The proposed strategy is based on a more proactive, targeted approach to established SMEs which show evidence of potential for growth, and a reactive approach to micro businesses and start up's.

Coverage of Agriculture

- Our recommendation is that, in the future, SMEDA should continue to support SMEs that operate in agriculture sectors; however, this should be limited to SMEs operating 'beyond the farm gate'. It is completely impractical for SMEDA to provide customized support to individual Pakistani farmers.
- Pakistan already has a range of Federal and Provincial Ministries and Government Departments that focus on specific agriculture and farming sectors. Whilst the overall SMEDA attitude of trying to help all is laudable, supporting individual farmers would be a misuse of scarce resources.

Lack of Resources - Understaffed Organization

- At the end of 2012, the current headcount at SMEDA was 138 against an approved strength of 194. Of more concern is the allocation of staff in various functions. Of the total 138 employees, only 74 (Outreach Division) could be termed SME facing.
- That is, for a national organization whose primary remit is to provide direct support to SMEs across Pakistan, only 53% of SMEDA's staff resource is directly focused on SME support delivery.

Reducing Budget

SMEDA is the apex organization working at a federal level for the promotion and support of SMEs nationally. SMEDA's budget for the year 2012-13 is PKR 195 million. Although the table below indicates a marginal increase in annual budgets 'year on year', in net terms, SMEDA's operating budget has reduced substantially over the last 4/5 years when annual inflation rates are considered over the same period. (20.3% in 2008 reducing to 11.9% in 2011 – World Bank inflation figures for Pakistan).

Year	Total Budget (PKR million)	Annual increase
2012-13	195	6.5%
2011-12	184	6.4%
2010-11	172	7.5%
2009-10	160	6.7%
2008-09	150	0.0%
2007-08	150	

Capacity Constraints - Regional Business Coordinators (RBCs)

- SMEDAs operational outreach operates through 20 RBCs around Pakistan. These are typically based at local Chambers of Commerce. These RBCs face a serious capacity issue which was repeatedly highlighted by a number of GMs, Regional and other managers at SMEDA. These offices are manned and operated by only one person. The majority of these RBCs are staffed by 'coordinators' which are typically junior staff in SMEDA with limited experience of SME businesses
- In addition, again because of resource constraints, RBCs are inadequately equipped with hardware, access to useable, relevant market, business, and technical information enabling them to manage their job efficiently - supporting SMEs.

- Finally, consistent with SMEDA's operation in general, RBCs tend to be very reactive, responding to enquiries made and 'walk in traffic'. There is very limited proactive activity, in particular targeting 'high growth potential' SMEs based in that RBCs catchment area.

Lack of Trained Staff

- There is a lack of customized training of SMEDA staff (especially the RBC, helpdesk staff) in order to equip them to provide the required support to SMEs. There is a distinct lack of 'front line' SME experience within SMEDA.
- There is a serious lack of capacity to manage SME Diagnostics, or Business Development Reviews (BDRs). This is essential for SMEDA's regional staff in order to allow them to prioritize the real needs which each SME has, before directing the SME to the relevant SMEDA service.

Disconnect between Outreach and Business and Sector Development Services (BSDS) Divisions

- In the current organizational structure, there is an issue regarding the efficiency of communication between Outreach and BSDS Divisions. This issue is clearly recognized internally and was openly discussed in the management team meetings and in individual meetings with the managers.
- There is little coordination between the two divisions. As such, there are areas of overlap and duplication with the impact of reduced effectiveness of service delivery to SMEs.
- There is a database of consultants (BDSPs) which has been developed by BSDS. Most of the suppliers included in this database are accountants or lawyers since these are the two key services developed by BSDS. However, there is little use of this database by the provincial and regional offices in the Outreach Division. Undoubtedly, one of the reasons for this is that there is very little demand for legal and/or accountancy services amongst SMEs.

Lack of Defined Key Performance Indicators

- Key Performance Indicators (KPIs) are not properly established for different departments/positions. This seriously limits the capacity of the organization to operate with a performance-driven approach, and seriously impedes the capacity with which the management team can direct the organization.
- A Performance Management Program together with a set of detailed KPIs, relevant to the new BDS Division is included in the report. (Organizational Assessment & Strategy for Service Delivery).

SMEDA's Existing Services and Delivery Capability

SMEDA currently offers a number of support services to SMEs. These include services targeting individual SMEs, and SMEs operating within wider sectors and clusters where wider project/initiative based support is offered. A brief summary is provided in the following paragraphs:

- SMEDA has ten different services listed in its current menu of services which include: Business Plan development services, eServices/Industrial Information Network (IIN), Financial Services, Industry Support Program, Information Resource Centre (IRC), Legal services, Technical services, Training services, Women Entrepreneurship Development Initiatives and SME Toolkit.

- SMEDA has also developed SME support publications and adaptable templates including Pre-feasibility Studies, Regulatory Procedures, Sector Briefs, Commercial Contracts, Research Journal and Publications.
- The organization has also designed and managed programs for cluster development support. Projects in this category include; Public Sector Development Projects (PSDPs), Cluster Development Initiatives and Development Partner Initiatives.

SMEDA's Current SME Services – Supply Driven Approach

- SMEDA does offer some BD services to SMEs. BSDS has developed a portfolio of services which mainly includes accounting and legal services. However, the service menu is not in line with the real needs of the SMEs and it is evident that SMEDA BD services tend to be supply driven and not SME demand responsive.
- This is largely accepted across the SMEDA management team. SMEDA maintains a good database of all SME 'walk-in' enquiries over the past eight years. This database is searchable by region, sector, and type of inquiry/required support. However, very little use of this database has been made as a tool for a continuous realignment of SMEDA services with the SME needs.

Ineffective Linkages between Information Resources and Points of Service Delivery

- SMEDA has a range of good business information at its disposal, and through its information sharing partnership with LUMS. However, the present disconnects within the organization does not allow effective use of this information.
- Currently, there is no efficient procedure for linking the 'walk in' SMEs, through the RBC, to allow them access to the business information available within SMEDA.

SMEDA - Acting as a Service Provider versus a Service Facilitator

- With SMEDA's current capacity and structure, it is unrealistic to expect the organization to be directly involved in 'hands on' support to SMEs. Indeed this was never the intention when SMEDA was established. Even if SMEDA were to focus on the 4% of the estimated 3.2million businesses in Pakistan which are defined as SMEs (i.e. not micro businesses with <10 employees), this leaves a base of approximately 128,000 SMEs. With an existing headcount of 138, it would be completely unrealistic for SMEDA to provide effective 'hands on' support to this volume of SMEs.
- SMEDA needs to reposition itself as a service facilitator or catalyst in directing SMEs to customized BD services delivered by specialist BDSPs. In support of this point, a clear message which came back from our discussions with SMEs was that the support provided by SMEDA tends to be generalized. Provision of customized services through a strong network of certified BDSPs, combined with SMEDA provincial staff acting as facilitators, will go a long way to resolve this.

SMEDA's Current and Future Use of BDSPs

SMEDA has developed a BDSP database, and this database is accessible via the website. However, the range of BDSP types listed is completely disconnected from the actual support and advisory requirements of SMEs.

- The system's prime focus is on two services, legal and accounting. Neither of these services features as a business development need, as expressed by

SMEs. More important needs like marketing, technical and management services are not covered by the database.

- There is very little awareness amongst SMEs about the existence of this database of consultants. There is a very fragmented understanding and usage of the database within SMEDA.
- There is no formal mechanism for hiring of consultants. There is limited awareness in the BDSP market about the existence of this database, so there is no incentive for BDSPs to market themselves toward SMEDA.
- Even if a BDSP is approached by SMEDA, right now there is no incentive for a BDSP to enroll on the database. The prospect of regular, fee based SME project work would be more of an incentive.
- There is no robust screening process, specified standards and minimum qualification criteria set for the BDSPs who want to register on this database. No evaluation of the applicant consultant is carried out by SMEDA and there is no system whereby a BDSP can be classified as a "SMEDA Certified" service provider.
- The role of SMEDA is usually limited to providing the names of the BDSP to an interested SME, and there is very little involvement in acting as a facilitator between the SME and BDSP to agree on TORs, and to manage the project. Feedback from SMEs does suggest that SMEs would certainly appreciate SMEDA acting in some form of supervisory capacity, as security to the SME.
- No follow up 'monitoring and evaluation' is carried out to assess how a SMEDA referred BDSP has performed.

SMEDA – Marketing & Promotion

- SMEDA makes no use of marketing and promotion to position itself as the key support service provider for SMEs operating in Pakistan. As a result, there is confusion, a lack of understanding in the business community about the role of SMEDA, and a lack of awareness of the support services that SMEDA can offer, and how an SME can access this support.
- A Marketing & Promotion Plan is necessary in the future. This plan must have both a national and regional orientation, and should also include the input of SMEDA provincial offices to ensure highly localized promotion and targeting of SMEDA services is focused on 'high growth potential' SMEs in the provinces.

3.1.2 External Assessment – SME Business Development Needs and Policy, Advocacy, Regulatory Issues

SME Business Development (BD) Needs

Before summarizing our analysis of SME needs, it is important to highlight other conclusions drawn from the research. These are not SME 'need specific', and are more in the style of observations regarding typical SME attitudes and 'mind sets' which do have an important bearing on the way these services should be delivered.

- SMEs in Pakistan have limited experience and understanding of the potential benefits of working with external advisors. SMEDA should recognize this in terms of their approach to future BD service delivery.
- There is reluctance on the part of SMEs to pay for external advice. SMEs have difficulty in recognizing the cost/benefit of external advice
- A distinction should be made in the way BD services should be delivered to 'women managed SMEs', however, feedback we received from 'women

managed SMEs' was clear in saying there should be no distinction in the actual type and range of BD services provided

- SMEs tend to be very short term focused in their business management attitude. The more established the business becomes, the greater the recognition of the need for future planning, and establishment of a management team with clear responsibilities.

A set of clear SME needs for business development support emerged from the research. These needs were consistently raised in 'one to one' SME meetings, in all the Focus Group Discussions (FGDs), and were subsequently verified through discussions with Chambers of Commerce, Industry Associations, and selected 'industry commentators'. 'Needs' which SMEs have for Business Development support include:

- Marketing & Sales Management
- General Management Support
- Technical Support
- Business Start Up Support
- Access to Business Information
- Access to Finance

The final 'Organizational Assessment & Strategy for Service Delivery' report covers each of these key SME needs in some detail. With this understanding, we matched each of the SME needs highlighted above, against a menu of specific BD Service Families (covered later) which SMEDA have accepted and are keen to develop. A real benefit of what we propose is a model whereby, in the future, SMEDA will be able to customize support based on the assessment of each SMEs needs – be they 'small', 'medium' or 'micro' size. Bear in mind that one of our fundamental recommendations to SMEDA, now fully accepted by them, is that future provision of services should be proactive, targeting 'high growth potential' SMEs, and reactive only to micro businesses and start up's.

Linked to this was a strong endorsement from SMEs approached, that a more thorough assessment (on an individual SME basis) of their actual needs – particularly constraints/opportunities for growth – through some form of diagnostic or review tool managed by an experienced SME Advisor, would be of real value to them.

Policy, Advocacy and Regulatory Issues

- SME Policy - SMEDA recognises the importance of its future advocacy role in shaping national, regional and sector specific SME policy and regulatory frameworks. It also places a high priority on reinforcing its position as the 'lead' SME support agency in Institutional Coordination.
- SME Policy should be reviewed against SME needs. SMEDA has an important role to ensure policy is shaped to support and facilitate SME needs, and support mechanisms to address SME needs. As will be covered later in this report and as has been discussed in depth with the senior SMEDA management team, the new, proposed operational structure fully reflects the future management responsibility of the SME Policy, Regulatory advocacy roles above.
- Indeed, as a reflection of the priority which SMEDA places on this, the new operational structure includes a reshaped Policy & Institutional Coordination Division specifically to drive forward these advocacy and lobbying roles.

4. Cohesive Strategy

4.1 Vision and Objectives

The SMEDA 5 Year Business Plan includes the following Vision Statement:

“To assist in employment generation and value addition to the national income through development of the SME sector by helping increase the number, scale and competitiveness of SMEs”

Whilst we don't have an issue with the SMEDA 'vision' our only observation is that this statement, again, reflects SMEDA relative comfort in operating at a macro, national, sector level, and is less comfortable in operating a local, SME, BD support level – which is what they should be doing

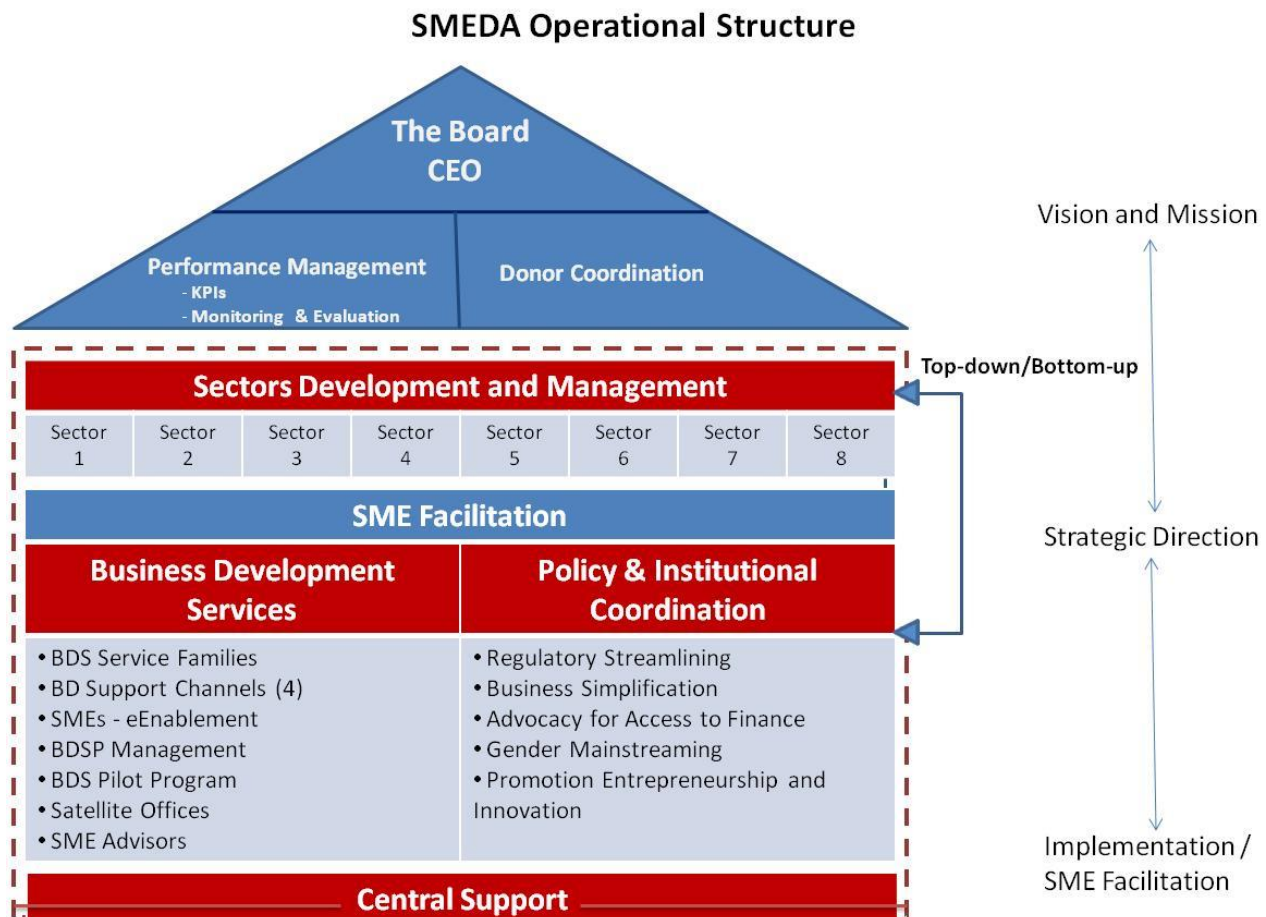
Encouragingly, SMEDA now appear more willing to accept a Performance Management model (presented in our earlier project report), which does give them some practical/measurable KPIs in terms of numbers of SMEs supported by each of the 4 SMEDA Regions, by each of the 12 proposed Satellite Offices, and as performance targets for SME Advisors based at SMEDA Provincial and Satellite Offices.

4.2 SMEDA Operational Structure

During the 'Organizational Assessment & Services Strategy' project, options for necessary revisions to the SMEDA Organization & Management Structure were discussed at length. In particular our recommendations to merge the Outreach and BSDS Divisions, into one larger Business Development Services (BDS) Division were discussed and accepted by the SMEDA management team. A detailed organogram for the BDS Division is given in the Organization Assessment and Service Strategy document.

In the most recent 'Assistance to SMEDA in developing a 5 Year BP' project, a broad framework for SMEDA operational structure is presented. The new Operational Structure is fundamental to SMEDA's Cohesive.

Strategy and their 5 Year Business Plan. The structure is presented below:



Overall, the SMEDA CEO and management team have accepted the Operational Structure above as a strong platform to develop and move forward. The 4 Operating Divisions are highlighted in red.

SMEDA see the benefits of this structure in terms of fitting with the key pillars of their Strategy. That is, a strong sector focus, a significantly strengthened BDS division, and a more robust Policy & Institutional Coordination capable of managing SMEDA's expanded role in shaping SME Policy and Regulatory Frameworks. Finally, this structure is entirely consistent with SMEDA's desire to operate on a 'Top Down' – national, macro-economic, policy level, and with a new range of 'Bottom Up' SME BD support services delivered through a much more demand responsive network.

Sectors Development and Management Division

The revised SMEDA Operational Structure includes a new 'Sectors Development and Management' Division. The primary role of this division will be to plan, manage and continually update all activities in support of developing priority sectors. In addition, this division will also be tasked with identifying priorities for a fully supportive, 'all embracing' enabling environment for SMEs through policy and institutional coordination.

The inclusion of this division, in balance with the stronger implementation arms of SMEDA i.e. BDS division – providing direct services to SMEs, and Policy and Institutional Coordination division – creating an enabling environment for SMEs, is entirely consistent with the objective of providing a 'Top Down' sector driven approach with a 'Bottom Up' individual SME support

driven approach. More detail on SMEDA's approach to selecting priority sectors together with their plans for creating an enabling environment, are below.

Priority Sectors

A focus on priority sectors is important to SMEDA. Indeed, given the availability of resources and funding at their disposal, it would be impractical to cover all sectors in which SMEs operate. SMEDA have established a set of criteria against which selection of Priority Sectors is currently being finalised. These include:

- SME Density & Export Performance – where relative densities of SMEs are plotted geographically and by industry sector.
- Growth Potential within sectors using potential employment generation, value addition to GDP, and potential for world trade as selection criteria
- Strength of SMEDA Sector Experience & Understanding - sector studies, sector companies, cluster studies
- Strength of 'Fit' with Government Priorities and SME Policy - framework for economic growth, increased tax Revenue, SME BD services, streamlining regulatory frameworks etc.
- Clarity regarding priority sectors 'inhibitors to growth'
- Strength and depth of SME types within the sector value chain.

Priority Sectors currently being assessed by SMEDA are included at Slide 10 within the attached SMEDA Business Plan (presented in PowerPoint format)

Priority Environment Enabling Interventions

In addition to providing a significantly enhanced range of individual SME BD support services, together with a more expanded role in shaping future SME policy and streamlining regulatory frameworks, SMEDA plans to establish an enabling environment or SME support community in which existing and new SMEs can be nurtured, and supported in growth.

Supporting the more direct SME BD services, SMEDA is already developing plans to stimulate this 'all embracing' SME support community. The role for Sector Development and Management division is to identify priority areas relevant to selected sectors, and backstopping Policy and Institutional Coordination division in implementation of these interventions. Initiatives recommended in this area include:

- Access to Finance - championed through a 'Financial Team' with SMEDA
- Youth – promoting, encouraging 'Youth into Business'
- Promoting Knowledge Entrepreneurship & Financial Inclusion
- Women Development – Empowering and encouraging women in all levels of business
- Creating a level playing field & financial inclusion
- e-Enablement – Stimulating 'faceless' BDS facilitation, access to 'Doing Business Guides & Tips', up-gradation of SMEDA Web Portal for B2B contacts, Online SME clubs, forums encouraging contact between SMEs within and across sector value chains

Policy and Institutional Coordination Division

SMEDA's priorities for the expanded Policy & Institutional Coordination Division include efforts to position and embed SMEDA as the 'lead' agency in efforts to collaborate with other institutions/stakeholders to ensure collective agreement on:

- Streamlining business regulations, administration
- Business simplification, easier transactions
- SME 'Access to Finance'

- Gender Mainstreaming, development of women owner/managed businesses
- Import/export support
- Fiscal consistency
- Promotion, and active encouragement of entrepreneurship and innovation
- Linkages between academia, industry and research institutes
- Youth – promoting, encouraging 'Youth into Business'

In terms of shaping future SME policy, priorities for the Policy & Institutional Coordination Division include:

- Encouraging acceptance of a well differentiated SME definition.
- A task force for regulatory reform – to assess relevance / benefit of existing regulations and compliance requirements for SMEs.
- Shaping the establishment of SME focussed 'Access to Finance' packages, tools, and 'hand holding' advice for SMEs
- Mainstreaming of gender issues, collaboration with, and definition of 'institutional' responsibilities and opportunities.
- Active promotion and encouragement of entrepreneurship and innovation
- Encouragement of a 'rescue culture' particularly focusing on 'troubled companies' important to local communities.

Business Development Services Division

Business Development (BD) Service Families

The SME research program gave us feedback on the real constraints to growth, and needs for support which SMEs face. We went to considerable lengths to ensure SMEs were able to explain their actual, 'real' needs lying beneath broader, more general headings which have typically been used in the past, on projects such as this. These broad headings are presented earlier.

The BD Service Families we present below have been developed in direct response to the 'needs' expressed by SMEs. Creation and active promotion of these BD Service Families offers a number of important benefits to both SMEs and to SMEDA:

- On the SMEDA website and other SMEDA promotional channels, an SME will have the option to 'click' on a BD Service Family and then access a menu of service types, bringing much more clarity and improved understanding of what SMEDA can offer. This is now being developed by SMEDA under their SME eEnablement initiative.
- The range of BD Service Families gives the SMEDA Network a consistent, uniform set of services which are sufficiently flexible that they can be provided to 'small' companies, 'medium' companies and, indeed, micro businesses on an enquiry, or 'walk in' basis.
- These BD Service Families are compatible with, and should be used in each of SMEDA's 4 new BD Support Channels. (Next Section)
- Finally, given the future reliance which SMEDA place on BDSPs, the range of BD Service Families also gives real direction and definition to any BDSP recruitment initiative.

The recommended BD Service Families are below. Note, these represent the Service Family headings. Each Service family is broken down into recommended specific services. These are included at Appendix 5, and are presented in depth in the 'Organizational Assessment & Service Strategy report.

- Growing a Business - General Business Management

- Starting a Business
- Supporting Access to Finance
- Understanding New Markets and Customer Needs (Export & Domestic Markets)
- Strengthening Marketing & Sales Skills
- Exporting – New & Current Exporters
- Production and Technology
- Access to Business Information – Markets, Products, Trade Directories

BD Support Channels

An important element of the SMEDA Cohesive Strategy is greater clarity and definition of distinct channels through which SMEs will be able to access BD support, and SMEDA will be able to facilitate it. In the future, SMEDA's 4 principal SME BD Support Channels will include:

- **Tailored SME Projects-** Where SMEDA facilitates the selection, appointment and management of a specialist BDSP to work with an SME on a customized project. This can be reasonably intensive and, therefore, expensive support. As such, it should be deployed specifically for 'high growth potential' SMEs.
- **Satellite Offices-** Where experienced staff respond to enquiries, and 'walk in' traffic by appointment? Typically, 2/3 SME Advisors will be based at each Satellite Office and will be highly proactive and mobile in targeting, and working on site with local SMEs.
- **SME eEnablement** –offering SMEs and micro businesses web based practical business guides, signposting, and on line advice in areas such as technology, access to finance, export/market information and;
- **Training**– offering sector and product specific training consistent with the BD Service Families, building on the strong reputation which SMEDA already have for delivering SME training 'locally'.

BDSPs – Recruitment & Management

From an early point in our involvement, SMEDA recognised the future importance of BDSPs in delivering SME BD support – facilitated by SMEDA. The current BDSP Database is not strong enough, either in the depth or range of specialist services necessary to meet SME needs. This is highlighted in an earlier section of this report 'SMEDA's Current and Future Usage of BDSPs'. Significant BDSP capacity building is required

Recruitment

- A BDSP Recruitment drive is necessary – with full screening, moving toward Approved Status through SMEDA, or an external body with high credibility.
- As a priority, SMEDA need a 'user friendly' accessible database collating BDSPs by region, sector background, and specialism, which can be accessed via the SMEDA Provincial and Satellite offices 'matching' individual SME support needs with BDSPs offering relevant experience.

Management

- SME Advisors will work as 'facilitators' at a point between SMEs and an appointed BDSP. Effectively 'policing' individual SME projects.

- The use of BDSPs is best suited to 'high growth potential' SMEs, requiring intensive, highly customized support

BDSP Capacity Building

- Currently, there is no real understanding of the depth, capacity of BDSPs in Pakistan – regionally, by sector, or by specialism. At best, the view is that 'quality and quantity' will vary significantly. Through a BDSP Recruitment Drive, SMEDA will develop its understanding of BDSP capacity and deficiencies by sector, region and BDSP specialism. This must be designed in line with SME BD needs, and SMEDA sector priorities.
- With this understanding, a Capacity Building Program will:
 - Strengthen BDSP consultancy and advisory capacity – listening skills, SME diagnostics, prioritizing SME issues, 'scoping projects' preparing proposals, project and contractual management.
 - Support selected BDSPs with induction and familiarization of SMEDA. (Structure, services, resources, sector priorities and reporting procedures).
- An outline plan for a BDSP recruitment drive is presented at Slide 32 in the attached SMEDA 5 Year Business Plan (Appendix 4)

SMEDA Marketing, Promotion & PR

At an early point in this project the management team understood that there was confusion in the market in terms of 'What SMEDA is' and 'What SMEDA does'.

Fully endorsed by SMEDA, the Cohesive Strategy recommends the need for a Marketing & Promotion Plan. This Plan should be clear on:

- Messages with regard to SMEDA as an organization, its Provincial and Satellite Office structure, and the SME BD services it provides.
- The promotional and media channels which will be used to strengthen awareness of SMEDA nationally, regionally, and within key sectors. Examples may include; national press, TV (likely to be extremely expensive), regional press, through industry associations, industry and trade press.
- Through SMEDA Provincial Offices and in line with a future focus which is more proactive in approaching SMEs, a series of regional 'SME awareness building seminars', and mail-shots to targeted SMEs would be useful.

Marketing & Promotion campaigns of this nature can be technically complex. There may be merit in considering the benefits of contracting this out to a specialist Advertising/PR/Communications agency.

5. Performance Management and KPIs

Encouragingly, from the start of our involvement SMEDA recognized that the absence of overall objectives and Key Performance Indicators (KPIs) at an organizational, provincial, departmental and individual level was an issue.

The Organizational Assessment and Strategy for Service Delivery report presents objectives and KPIs, together with recommendations for embedding a Performance Management model. This is endorsed within the SMEDA 5 Year BP. Whilst SMEDA's overall objectives tend to be very 'macro' level, for example, increase in jobs nationally, increase in GDP, new enterprises created, SMEDA has also committed to the need for KPIs set at Provincial and Satellite Office level and also at an individual SME Advisor level.

SMEDA plan to establish and monitor performance against criteria more in line with their core remit. That of providing practical, 'need responsive' BD support to SMEs. More specifically, KPIs which SMEDA plan to use in the future are likely to include, for example:

BDS Division

- Number of new SMEs approached 'on site' to introduce SMEDA services (typically by Satellite Office based SME Advisors)
- Number of SME diagnostics, business reviews carried out
- Number of customized SME support projects initiated using an appointed BDSP
- Number of completed BDSP projects
- Number of training events managed and number of SMEs participating in each event
- Number of BDSP training events, and number of BDSPs attending.

As is the case in any SME Development Agency, devising sets of measurable KPIs in divisions or departments not directly involved in supporting individual SMEs (such as the BDS Division), is challenging. Nevertheless, as fully accepted by SMEDA, the Policy & Institutional Coordination, and Sectors Development and Management Divisions also require objectives and KPIs against which performance and progress can be monitored. SMEDA have made a start in attempting to establish KPIs, however, this is another area where external, technical assistance would be of benefit to them, both in finalising KPIs but also ensuring they are embedded as sound management practice.

For each of these 2 divisions, KPIs are likely to include, for example;

Policy & Institutional Coordination Division

Key SMEDA priorities are to strengthen collaboration with other institutions/stakeholders, and contribute fully to shaping future SME policy in order to:

- Streamline business regulations, administration – SMEDA plan to identify areas where regulatory and administrative efficiencies can be achieved. Targets measuring increase in efficiencies, and dates for achievement should be set
- SME 'Access to Finance' – Tools, and initiatives will be established with agreed targets for number of SME applicants, number of supported SME initiatives or projects etc
- Gender Mainstreaming, development of women owner/managed businesses – measured in terms of increase in registration of women/owned managed businesses

- Export support – KPIs set in terms of SME export projects supported, additional exports (in value terms)
- Fiscal consistency – linked with Government policy
- Promotion and active encouragement of entrepreneurship and innovation. Measured in terms of new business start ups, business sustainability, number of SME application/enquiries received regarding product and technology development.
- Linkages between academia, industry and research institutes – particularly to support growth in priority sectors

Sectors Development and Management Division

KPIs for this new division are likely to include, for example;

- Number of sector or value chain assessments completed, together with sector development action plans.
- Number of policy and institution support need assessments completed, together with action plans
- Encouraging Youth into Business – Establishing targets by region and by sector of the number of start up's by, for example, under 25 year olds promoting, goals in terms of number of universities, colleges, schools embracing SMEDA 'youth into business initiatives'
- Women Development – Empowering and encouraging women in all levels of business. Set targets for the number of women managers in SMEs, targets for increase in number of female managing directors.
- e-Enablement – Stimulating 'faceless' BDS facilitation, access to 'Doing Business Guides & Tips', up-gradation of SMEDA Web Portal for B2B contacts , Online SME clubs, forums encouraging contact between SMEs within and across sector value chains. Targets set and measured for the number of website 'hits', enquiries received from SMEs, and responses in all SMEDA online services

6. Pilot Program

Throughout the development of this overall support we have discussed the merits of SMEDA launching and managing a 'pilot' SME BD support program. We have 'mirrored' this program on a highly successful SME support programme managed over 2 years in Croatia – SMEPASS (www.smepass.hr)

The objectives of this program were:

- To raise the competitiveness of selected Croatian SMEs in priority sectors
- To scope, 'contract out' and manage selected BDSPs managing over 200 individual, customized SME projects.
- To target support at SMEs in priority sectors and regions.
- Provide an average of 10 days BDSP input per SME. 100% paid by the EU

A version of this SME support programme, fully customized to the distinctive needs of Pakistan SMEs and managed by SMEDA, offers a number of important benefits and impacts. These are completely consistent with the priorities laid out in the Cohesive Strategy.

- Current SME understanding of 'What SMEDA does' is low. A well promoted launch of an SME BD support program would quickly raise awareness of SMEDA.
- This program approach is highly flexible and can be directed toward specific SMEs, and can be 'capped' in terms of budget per project.
- It would serve as powerful engine to identify, work with and gain a stronger understanding of specialist BDSPs, and:
- Most importantly it would offer 'high growth' potential SMEs, highly customized support which could have a real impact on their growth and competitiveness.

As will be covered in the next section, whilst SMEDA are very keen on launching such a program, they recognize that this type of support is new to them and technical guidance in designing, launching and managing the program would be of real benefit.

7. Implementation – ‘Making it Happen & Support Required’

SMEDA, together with the Firms Project team, recognizes the significant challenges which implementation of all elements of the Cohesive Strategy entails. It is a Plan which will ‘reach out’ over a 5 year horizon, and for this reason it will be supported by:

- An Implementation Plan which builds on, and adapts the Implementation Plan already presented in the Organization & Service Strategy’. This Plan was developed in January 2013, so requires updating/restructuring by SMEDA – as a platform for driving the Cohesive Strategy forward.
- Allocates clear management responsibilities for implementation with the new Operational Structure. Along with this, includes clearly understood delivery targets within an Integrated Implementation Schedule

Throughout our involvement with SMEDA it has been refreshing to witness, on the one hand, SMEDA’s acceptance of the need for change and, on the other hand, their progressive commitment to recommendations made in each project, now reflected in the Cohesive Strategy. As a direct result of this overall support SMEDA now has a clearer understanding of their strengths and limitations as an organization.

In our opinion, effective implementation of this Cohesive Strategy will be dependent on a combination of technical assistance and funding support. In overall ‘Project Management’ terms, the SMEDA management are clear in declaring that they would benefit from ongoing technical assistance and input in overseeing all aspects of implementation of the Cohesive Strategy.

In addition, by way of conclusion to this report, we have highlighted a number of priorities below which, if provided with overall Project Management support (as above), could have a real impact on repositioning SMEDA as the ‘lead’ SME support agency in Pakistan, having a real impact on the future growth and competitiveness of SMEs in Pakistan.

- Developing and launching a BDSP recruitment drive
- Developing and establishing the Satellite Office network
- Designing and managing a Capacity Building & Training support program– both in Head Office, throughout the new BDS Division and BDSPs
- Developing, promoting and managing an SME BD support ‘Pilot’ Program.
- Embedding a clear set of ‘measurable’ KPIs, which SMEDA commit to, at a Head, Provincial and Satellite Office level, and at an individual level.
- Developing and launching a Marketing & PR Plan to address the erosion in SMEDA image, and awareness of ‘Who SMEDA is, What does SMEDA do’, and:
- Provision of technical assistance to SMEDA through a team of external technical advisors comprising international and local experts
- Financial assistance for subsidizing up to 90% of cost for the BDS ‘Pilot Program’ offered to carefully selected SMEs, managed by SMEDA utilising BDSPs selected specifically on the basis of their experience, for each SME

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